

# Minnesota

## Department of Finance

January 2001

### November and December Revenues Less than Forecast

Net general fund revenues totaled \$2.131 billion during November and December, \$43.1 million (2.0 percent), less than forecast. Income tax receipts exceeded forecast by \$11 million, but the sales tax, the corporate income tax, and the motor vehicle sales tax were each below forecast. Receipts for the current fiscal year now total \$5.936 billion, up 7.3 percent from fiscal 2000.

#### Summary of Tax Receipts: November – December 2000

|                | <u>Estimate</u>              | <u>Actual</u> | <u>Variance</u> | <u>Percent</u> |
|----------------|------------------------------|---------------|-----------------|----------------|
|                | ----- (\$ in millions) ----- |               |                 |                |
| Income         | 933.1                        | 944.5         | 11.4            | 1.2            |
| Sales          | 625.0                        | 605.2         | (19.8)          | (3.2)          |
| Corporate      | 166.9                        | 135.7         | (31.2)          | (18.7)         |
| Motor Vehicles | 79.1                         | 75.3          | (3.8)           | (4.8)          |
| Other          | <u>369.6</u>                 | <u>370.0</u>  | <u>0.4</u>      | <u>0.1</u>     |
| TOTAL          | 2,173.7                      | 2,130.7       | (43.1)          | (2.0)          |

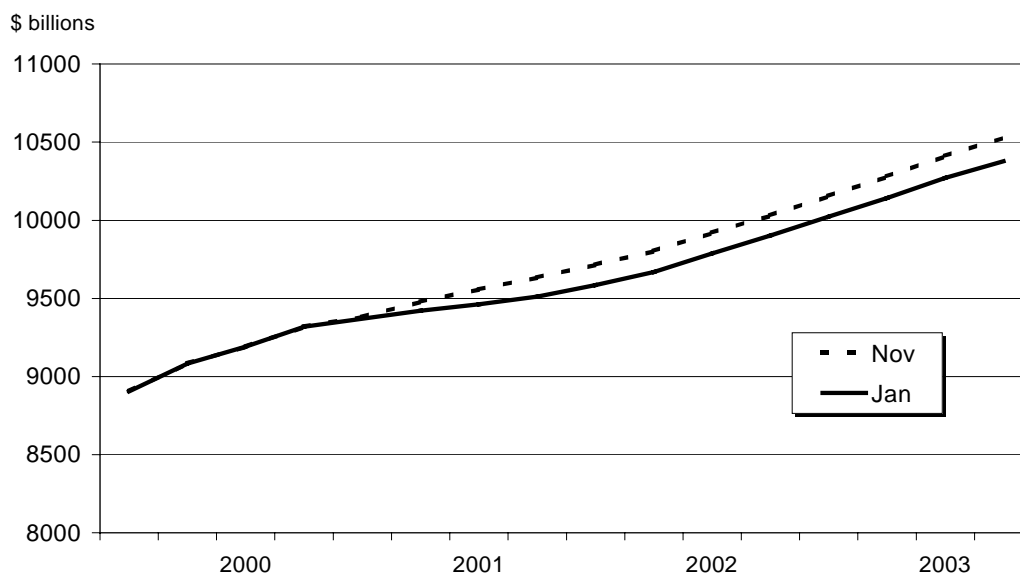
Most forecasters have reduced their estimate for U.S. real GDP growth, and Minnesota's current negative variance in state tax receipts may reflect slower than forecast economic growth during the past two months. But, last quarter's revenue comparisons should be viewed with caution since they could reflect timing differences, as well as changes in the underlying economy. Fourth quarter individual income tax estimated tax payments were \$18 million below forecast (see p.4), but those payments are not actually due until January 15, 2001 so that shortfall could be erased by higher than anticipated receipts in early January. Year-to-date corporate income tax refunds exceeded the forecast by \$10 million, but since processing of calendar year returns will not be completed until late January that variance could be due to an acceleration in refund processing. In addition, sales tax receipts reflect only purchases through November. Sales taxes collected by retailers during the December portion of the crucial Christmas shopping season will not be remitted until January. Combined December and January revenue collections will provide a better indicator of how well Minnesota's revenues are tracking the November forecast. That data will be used in shaping February's revenue forecast.

## Slower Economic Growth, but No Recession in 2001

The Federal Reserve's surprise one-half percentage point cut in the federal funds rate verified what virtually every forecaster already knew; U.S. economic growth has slowed. Third quarter real GDP is now reported by the U.S. Department of Commerce to have grown at a 2.2 percent rate, down 0.5 percentage points from the 2.7 percent estimate issued in late October. Payroll employment growth during October, November and December averaged just under 77,000 per month, indicating that fourth quarter growth is unlikely to exceed 2.5 percent. As little as two months ago many expected fourth quarter real GDP growth to continue at a 4 percent rate.

But, while the outlook for the economy entering 2001 is not as rosy as it was in early 2000, or early 1999, only the gloomiest forecasters expect a recession. Almost everyone expects real GDP growth to continue at a two to three percent annual rate during 2001. Indeed, only two of the 54 economists polled by the Wall Street Journal at the end of 2000 projected real GDP to fall for two consecutive quarters during 2001, the standard definition of a recession.

### DRI Expects Slower Real GDP Growth in 2001



During the past two months Data Resources Inc. (DRI), Minnesota's national economic consultant has noted signs of a slowing economy and their forecasts have been reduced accordingly. For calendar 2001, DRI now expects the economy to grow at a 2.5 percent annual rate. Their November Control forecast, the base for Minnesota's revenue forecast, called for real growth in 2001 at 3.6 percent. If DRI's forecast holds the U.S. economy will grow at a rate roughly one-half that observed in 2000, or at a rate roughly equivalent to that observed in 1993 and 1995. DRI notes that growth rate, "is about average by the standards of the 1970s and 1980s."

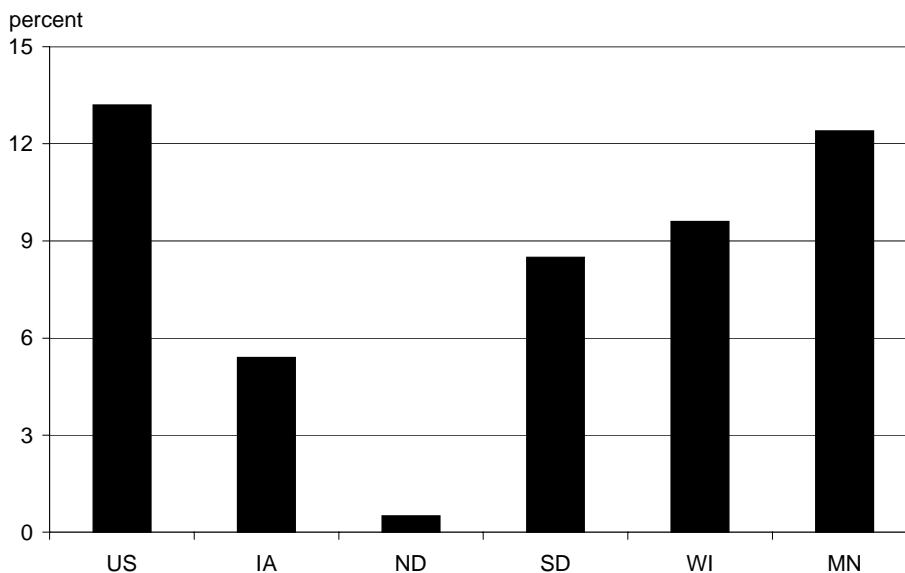
Most economists believe a loss in consumer confidence would pose the biggest threat to continued economic growth. Further rounds of troubling economic statistics could lead to increased speculation about a recession, and that speculation could become a self-fulfilling

prophecy should consumers cutback their spending and add to their personal savings. There is clearly a risk that the soft landing could become more bumpy or extend beyond the next few quarters, and DRI has reduced the probability assigned their Control forecast to 50 percent, down from 55 percent, in November. The probability assigned to a near term recession is now 40 percent, up 15 percent from November. A scenario containing a recession in late 2003 is now assigned a probability of 10 percent.

### Minnesota's Population Grew Faster than Anticipated During the Nineties

The first report from the 2000 Census has been released. It revealed Minnesota's resident population grew by 544,000 during the 1990s. But, while Minnesota grew faster than almost all Midwestern and Plains states, our 12.4 percent rate of population growth was less than the U.S. average. Twelve states grew by more than 20 percent, and three states Nevada, Arizona and Colorado grew by more than 30 percent. Nevada's population grew by more than 66 percent between 1990 and 2000. All 50 states showed population increases. Minnesota now ranks 21<sup>st</sup> in population; in 1990, we ranked 20<sup>th</sup>.

### Minnesota's Population Grew by 12.4 percent during the 1990s



This first Census report was limited to state and national population estimates. Reports providing details on the social and economic characteristics of the state's population will be released over the next few years. Analysis of that data will help us better understand the changes which are taking place in our state.

An early surprise was that Minnesota's population had grown faster than expected. Details are not yet available about the sources of that additional growth, but increased migration is likely to be the cause. Our higher population growth rate helps explain where the workers came from to allow Minnesota to continue to add jobs at a healthy rate during the late 1990s, while labor force participation rates remained extremely high. The U.S. population growth rate was also underestimated for the past decade, and by a slightly higher percentage than Minnesota's.

|                                    | 2001 Fiscal Year to Date |                    |                      | December – November, 2000 |                    |                      |
|------------------------------------|--------------------------|--------------------|----------------------|---------------------------|--------------------|----------------------|
|                                    | Forecast<br>Revenues     | Actual<br>Revenues | Variance<br>Act-Fcst | Forecast<br>Revenues      | Actual<br>Revenues | Variance<br>Act-Fcst |
| <b>Four Major Revenues:</b>        |                          |                    |                      |                           |                    |                      |
| <b>Individual Income Tax</b>       |                          |                    |                      |                           |                    |                      |
| Withholding                        | 2,354,800                | 2,366,621          | 11,821               | 843,036                   | 854,857            | 11,821               |
| Declarations                       | 356,000                  | 337,509            | (18,491)             | 101,987                   | 83,497             | (18,491)             |
| Miscellaneous                      | 74,700                   | 87,717             | 13,017               | 17,077                    | 30,094             | 13,017               |
| Gross                              | 2,785,500                | 2,791,847          | 6,347                | 962,100                   | 968,448            | 6,347                |
| Refund                             | 70,000                   | 64,922             | (5,078)              | 28,978                    | 23,899             | (5,078)              |
| Net                                | 2,715,500                | 2,726,926          | 11,426               | 933,123                   | 944,548            | 11,426               |
| <b>Corporate &amp; Bank Excise</b> |                          |                    |                      |                           |                    |                      |
| Declarations                       | 413,656                  | 388,968            | (24,688)             | 176,000                   | 151,312            | (24,688)             |
| Miscellaneous                      | 75,398                   | 79,373             | 3,976                | 22,000                    | 25,976             | 3,976                |
| Gross                              | 489,054                  | 468,342            | (20,712)             | 198,000                   | 177,288            | (20,712)             |
| Refund                             | 69,122                   | 79,597             | 10,475               | 31,100                    | 41,575             | 10,475               |
| Net                                | 419,932                  | 388,745            | (31,187)             | 166,900                   | 135,713            | (31,187)             |
| <b>Sales Tax</b>                   |                          |                    |                      |                           |                    |                      |
| Gross                              | 1,926,425                | 1,907,831          | (18,594)             | 673,770                   | 655,176            | (18,594)             |
| Refunds                            | 108,033                  | 109,226            | 1,193                | 48,773                    | 49,966             | 1,193                |
| Net                                | 1,818,392                | 1,798,605          | (19,787)             | 624,996                   | 605,210            | (19,787)             |
| 1999 Sales Tax Rebates             | (476)                    | (493)              | (17)                 | 17                        | 0                  | (17)                 |
| 2000 Sales Tax Rebates             | (3,454)                  | (1,095)            | 2,360                | (2,791)                   | (431)              | 2,360                |
| <b>Motor Vehicle Sales</b>         | 267,610                  | 263,833            | (3,776)              | 79,100                    | 75,324             | (3,776)              |
| <b>Other Revenues:</b>             |                          |                    |                      |                           |                    |                      |
| Inherit/Gift/Estate                | 41,585                   | 29,592             | (11,993)             | 20,964                    | 8,971              | (11,993)             |
| Liquor/Wine/Beer                   | 29,301                   | 27,259             | (2,042)              | 12,672                    | 10,630             | (2,042)              |
| Cigarette & Tobacco/Cont Sub       | 87,336                   | 83,907             | (3,429)              | 33,535                    | 30,106             | (3,429)              |
| Deed and Mortgage                  | 79,626                   | 79,787             | 161                  | 26,104                    | 26,265             | 161                  |
| Insurance Gross Earnings           | 55,178                   | 53,586             | (1,592)              | 52,756                    | 51,165             | (1,592)              |
| Lawful Gambling                    | 26,489                   | 26,242             | (247)                | 9,268                     | 9,021              | (247)                |
| Health Care Surcharge              | 57,351                   | 55,908             | (1,443)              | 19,033                    | 17,590             | (1,443)              |
| Other Taxes                        | 559                      | 466                | (93)                 | 234                       | 141                | (93)                 |
| DHS RTC Collections                | 6,377                    | 3,376              | (3,001)              | 3,535                     | 534                | (3,001)              |
| Income Tax Reciprocity             | 42,610                   | 42,610             | 0                    | 42,610                    | 42,610             | 0                    |
| Investment Income                  | 76,267                   | 88,075             | 11,808               | 29,178                    | 40,986             | 11,808               |
| Tobacco Settlement                 | 114,829                  | 116,112            | 1,283                | 114,829                   | 116,112            | 1,283                |
| Revenues yet to be Allocated       | 0                        | 4,893              | 4,893                | (1,482)                   | 3,411              | 4,893                |
| Residual Revenues Less Refunds     | 152,595                  | 154,120            | 1,525                | 13,869                    | 15,394             | 1,525                |
| Other Subtotal                     | 770,103                  | 765,932            | (4,171)              | 377,107                   | 372,936            | (4,171)              |
| Other Refunds                      | 8,520                    | 6,422              | (2,098)              | 4,750                     | 2,652              | (2,098)              |
| Other Net                          | 761,583                  | 759,510            | (2,073)              | 372,357                   | 370,284            | (2,073)              |
| <b>Total Gross</b>                 | 6,234,761                | 6,196,199          | (38,562)             | 2,287,302                 | 2,248,740          | (38,562)             |
| <b>Total Refunds</b>               | 255,675                  | 260,167            | 4,492                | 113,601                   | 118,093            | 4,492                |
| <b>Total Net</b>                   | 5,979,086                | 5,936,032          | (43,054)             | 2,173,701                 | 2,130,647          | (43,054)             |